MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

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# MULTIMEDIA UNIVERSITY

# FINAL EXAMINATION

**TRIMESTER 2, 2015/2016**

## BAC3664 – ACCOUNTING THEORY

(All sections / Groups)

29 th FEBRUARY 2016
2.30 pm – 5.30 pm
(3 Hours)

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**INSTRUCTIONS TO STUDENT**

1. This Question paper consists of **2** pages with **4** Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

## QUESTION 1

a) Explain some common criticisms of scientific approaches? Are they valid? Why or why not?

**(8.5 marks)**

b) Sustainability reporting is becoming a mainstream business practice. Explain why firms get motivated to issue sustainability reporting.

**(6 marks)**

c) Lister (1984) argues that "there is the fact that accounting practice in the past lacked (and still appears to lack) any conscious or unconscious scientific basis." In the light of this statement: Explain, the importance and relevance of studying the history of accounting thoughts?

**(10.5 marks)**

**(Total: 25 marks)**

## QUESTION 2

a) Each of the three theories of regulation has its strengths and limitations in describing accounting standard setting, either in the past or present. What do you believe are those strengths and weaknesses? Discuss them.

**(15 marks)**

b) "Observing the practices and techniques of working accountants and then teaching those practices and techniques to successive accountants". Explain with an example, the type of theory construction quoted above?

**(5 marks)**

c) Explain with examples comparability and consistency of the useful qualitative characteristics in a conceptual framework.

**(5 marks)**

**(Total: 25 marks)**

## QUESTION 3

a) "Firm with management compensation plans will use profit increasing accounting policies in preparing the income statement".
   i) Briefly explain the above statement.

**(3 marks)**

**Continued...**

ii) Risk aversion problem occurred when the managers rationally prefer to minimise their own risk rather than to maximise firm's value. Discuss how tied up the manager's remuneration to share price can minimize the risk aversion problem?

**(6 marks)**

b) The airlines industry is considered as politically sensitive industry. For example, Perth airports have to reduce aeronautical charges by 1.9 per cent after the competition watchdog has ruled they collected too much (effect: showed high profit) in their first four years of privatisation. This is for debt obligation purpose.

(Source: Financial Review, 20 February 2002, p.8)

i) During the first four years of privatisation, Perth Airport has showed higher profit. Which accounting hypothesis is the best to explain the accounting method used by Perth Airport and why such accounting method was used?

**(6 marks)**

ii) Discuss how debt hypothesis and political hypothesis can create conflicting opinions?

**(10 marks)**

**(Total: 25 Mark)**

## QUESTION 4

a) One of the justifications for the use of historical cost is the going concern assumption.

i) Explain the going concern assumption.

**(4 marks)**

ii) Sterling has questioned the validity of going concern assumption. Discuss and provide support to Sterling's argument.

**(4 marks)**

b) One of the recognition criteria of assets is probability of future economic benefits. In addition, one essential characteristic of liability is the entity has present obligation.

i) Explain future economic benefit of assets and present obligation of liability.

**(8 marks)**

ii) Provide four (4) examples on how the future economic benefits embodied in assets may flow to the entity and provide five (5) examples on how of settlement of present obligation of liability may take place.

**(9 marks)**

**(Total: 25 marks)**

**End of questions**